Alexander County Housing Authority
Illinois
Snapshot Review
September 22, 2014

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I. Executive Summary

Based on the results of a Public Housing Agency Recovery and Sustainability (PHARS) review of the Alexander County Housing Authority (ACHA – IL007) in September 2013 by the Chicago Field Office (CFO), the Office of Public and Indian Housing (PIH) referred the ACHA to the Departmental Enforcement Center (DEC) to conduct a review of the financial condition of the Low-Rent Public Housing Program (LRPH), Central Office Control Center (COCC), inter program balances, and ACHA's internal controls. The DEC conducted an on-site review, along with PIH, HUD's Office of Fair Housing and Equal Opportunity (FHEO), and HUD's office of Labor Relations from June 24, 2014 through June 26, 2014.

Based on our review, the DEC found that COCC expenses were paid with LRPH funds each year from FY 2011 through FY 2013 (October 1, 2010 through September 30, 2013), resulting in an inter program payable of $404,538 due from the COCC to the LRPH program at September 30, 2013. Also, had all of the authorized COCC fees for FY 2013 been charged to the LRPH program, the current assets of the LRPH AMPs would have been reduced, resulting in a PHAS financial score of 9.7 out of 25, putting the ACHA in a substandard financial status at September 30, 2013.

The DEC concluded the following were unauthorized uses of LRPH funds.

1. The previous Executive Director (ED), who retired April 1, 2013, has been paid $40,426 through May 2014 in salary and employment taxes on a post retirement consulting contract voided by the Chicago Field Office (CFO) in October 2013. Also, the entire $40,426 has been paid from LRPH program funds.

2. Early retirement buyouts and accrued vacation and sick time, post retirement employment contracts, and post retirement benefits totaling $296,426 paid during FY 2013 and FY 2014 were charged to the LRPH program.

3. An EEO settlement with a former employee effective February 2014 is being paid with LRPH funds, totaling $10,500 as of July 1, 2014.

4. Training and travel costs totaling $95,787 for COCC staff from FY 2011 through FY 2014 to date have been paid with LRPH funds.

The total unauthorized use of LRPH funds from FY 2011 through FY 2014 to date were $443,209. Had all of the authorized COCC fees for FY 2011 through April 2014 been charged to the Asset Management Projects (AMPs), and had all of the costs noted above been properly charged to the COCC, there would not have been any inter program payables at the end of any of these fiscal years, and the COCC would have a cash reserve of $301,901 at April 30, 2014.

The ACHA is also experiencing declining occupancy, with occupancy reported at 88% for July 2014, down from 94% for FY 2013. At this rate, the DEC projects LRPH operating deficits of $126,300 for FY 2014 and $379,900 for FY 2015.

The DEC recommendations include but are not limited to ACHA working with the local HUD PH field office to the reconciliation of COCC and LRPH accounts, recovery of over $31K paid to the former ED, training ACHA board members and the ED regarding the authorized uses of LRPH funds. In addition, ACHA should update their internal control policies in the areas of major purchases over $100,000, Davis-Bacon wage requirements; use of required HUD contract forms; and documenting rationale for contract awards.

II. Purpose

The purpose of the review was to assess the overall financial condition of the ACHA, determine the inter program receivable/payable balances, authorized and unauthorized uses of LRPH program funds, and to evaluate the internal control policies and practices in place at ACHA.

III. Scope and Methodology

The scope of the review included financial transactions of the ACHA for FY 2010 through April 2014 to determine the overall financial condition of the ACHA, compliance with HUD regulations on the use of LRPH program funds, inter program transactions between the LRPH and the COCC, procurement procedures, internal controls and overall governance and management of financial operations.

The DEC conducted remote work which consisted of a review of: ACHA financial audits for FY 2010 through 2013, including trend analyses; peer-to-peer analysis (P2P) for FY 2012; month end financial statements for September 2013 through April 2014; and bank statements, check registers and general ledgers for FY 2011 through FY 2013.

The remote work was followed up with an on-site review, along with PIH, HUD's Office of Fair Housing and Equal Opportunity (FHEO), and HUD's Office of Labor Relations from June 24, 2014 through June 26, 2014. This review included interviews with the ED/Finance Director and the Accounts Payable clerk and a review of the process for maintaining accounting records as part of its assessment of ACHA internal controls.[1]

IV. Background

The ACHA is located in located in Cairo, IL and operates 484 LRPH units in 3 AMPs. The LRPH program is the only HUD program operated by the ACHA.

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[1] See 24 CFR Part 85.20 (b) (3),which requires that HUD grantees and subgrantees establish effective internal control and accountability over grant funds received, to include safeguarding assets.

As a result of a substandard PHAS – physical score from FY 2012 of 22 out of 40, the CFO conducted a site visit to ACHA in September 2013 to substantiate the PHAS score determination. While there, the CFO team discovered a number of other issues that prompted a full PHARS assessment, which included the DEC and the other HUD offices identified above. The initial Results and Determination letter issued by CFO dated November 1, 2013 cited a number of Physical and Management issues that included improperly procured maintenance contracts, ongoing security issues at 2 of the AMPs, improper selection of employees offered retirement packages, conflict of interest issues between board and management personnel and employees of ACHA, and employee evaluations not tied to performance.

The administrative staff of ACHA currently consists of an ED, Finance Director, Accounts Payable Clerk (part time), Chief Leasing Officer, Leasing and Occupancy Clerk, Lease Enforcement/Occupancy-Receptionist, MOD Coordinator, Security Director, Site Manager (3 positions), and Assistant Site Manager (2 positions). Currently, the ED also fills the positions of Finance Director, Security Director and Site Manger for 2 AMPs, and the Site Manager for AMP 2 is the Assistant Site Manager for AMPs 1 and 3. There are also 3 security guards, who are centralized from the COCC, 3 maintenance techs assigned to the AMPs, and 5 part time employees who perform custodial duties at the AMPs.

The ED has worked at ACHA for 12 years and was elevated to ED in April, 2013. She served as the Financial Director for 10 years before becoming the ED. The ED also stated that the Fee Accountant, HBO, Inc. does not create the monthly financial operating reports, but only prepares the fiscal year-end financial statements for the annual audit. The monthly operating statements are prepared by the ED using a checklist provided by HBO, Inc.

The ACHA Board of Commissioners (the Board) consists of 5 members appointed by the Alexander County Board President. According to the ED, there are no Board members with a financial background. The ED also stated that the Board does review the check register and credit card statements each month.

V. Results of Review

A. Overall Financial Assessment

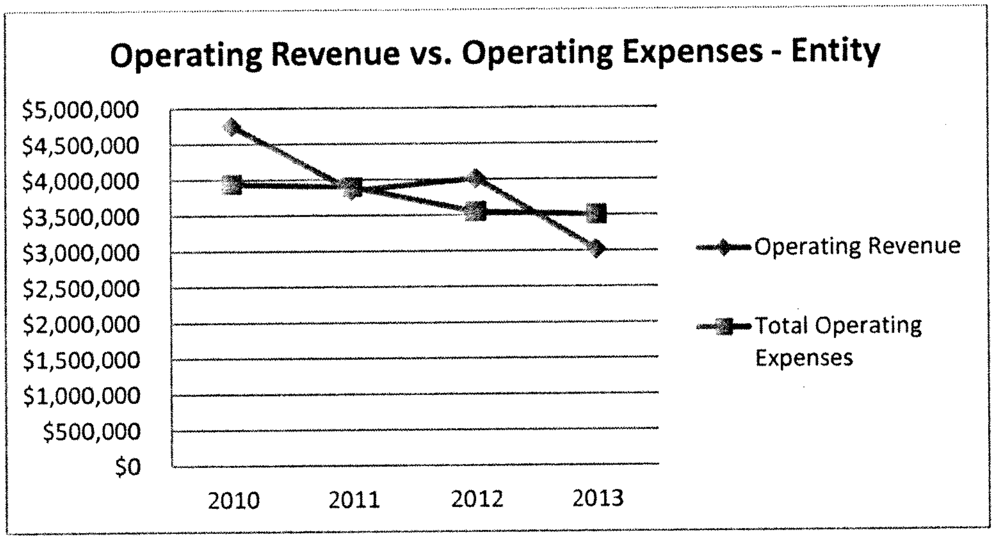
The overall financial condition of ACHA has weakened over the review period.

Overall net operating income decreased from a surplus of $812,608 in FY 2010 to a deficit of $488,429 in FY 2013, a change of $1,300,000. Overall cash and investments have decreased from $1,125,986 to $216,588 during this period, a change of over $900,000, and total revenues have decreased by $1,735,000 from $4,752,161 to $3,016,661 during this period. Operating expenses have decreased by $434,000 during this period, but not enough to keep up with the decrease in revenue. Operating reserves have fallen to $283,083 at September 30, 2013, to only .97 months of operating expenses, and, as of the April 2014 monthly operating report, are 1.26 months of operating expenses. These reserves are significantly below the 4 months of operating reserves required for a PHA of this size[2].

[2] PIH Notice 2011-55

The deterioration of the financial condition was caused in part by a reduction in HUD operating subsidy and CFP grants of $940,545 and tenant revenue of $46,739, totaling $987,284, from FY 2012 to FY 2013. The decrease in HUD operating and capital grants is consistent with reductions in HUD operating and capital grants throughout PIH caused by budget reductions and an effort by HUD to make PHAs use excessive operating reserves.[3] The decrease in tenant revenue was caused by a reduction in occupancy from 97% in FY 2012 to 94% in FY 2013. Overall occupancy for FY 2014 is 92% through April, 21014, with occupancy of 88% reported for July 2014.

Retirement buyouts and post retirement contracts totaling $248,878 in FY 2013 have also contributed to the decrease in operating reserves at September 30, 2013. The chart below shows the trends in ACHA revenue and expense:



B. LRPH Program

As with the overall ACHA, the financial performance of the LRPH program has weakened significantly over the review period. As reported in the Annual Audited Financial Statements (AFS), the LRPH program reported operating deficits in 3 of the last 4 years. Cash and investments have decreased by $774,952, total revenue has decreased by $769,650, and operating income has decreased by $421,264. From FY 2012 to FY 2013 cash and investments decreased by $738,592, total revenue decreased by $994,008 and operating income decreased by $660,046. The LRPH program reported an operating deficit of $220,017 in FY 2013; however, had all of the authorized COCC fees been paid, and the COCC expenses charged to the LRPH program been properly charged to the COCC, the operating deficit for FY 2013 would have been $425,586.

The decrease in revenue is the result of the same factors discussed above: reduced HUD subsidies and reduced rent revenue.

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[3] PIH Notice 2011-55 and PIH Notice 2012-02

As over 87% of LRPH revenue is from tenant rents and HUD operating grants, which are dependent on the number of occupied units, the reduced occupancy trend is significant. The DEC estimates the monthly income for each occupied unit during FY 2014 at $427.50; at 88% occupancy for July 2014 ACHA lost an estimated $24,795 in revenue. Based on the current 88% occupancy rate, the current rate of HUD operating and CFP grants, and the current rate of operating expenses, the DEC projects total revenue from tenant rents and HUD operating grants at $2,423,700 for FY 2014 and $2,159,700 for FY 2015, resulting in projected LRPH program operating deficits of $126,300 for FY 2014 and $379,900 for FY 2015. When coupled with the deficit operating results for 3 of the last 4 years as discussed above, the LRPH program is trending towards a non-sustainable financial position.

Overall operating expenses were $333,962 less for FY 2013 than FY 2012; however, total personnel costs were actually $93,867 higher in FY 2013 than FY 2012, even though 4 employees, including the former ED, retired halfway through the year. This was caused by payments on the voided consulting contract with the former ED and early retirement buyouts combined with rehiring 3 of these employees on employment contracts. Per payment records obtained from ACHA, $248,878 in early retirement buyouts, accrued benefits, and post retirement employment wages and benefits, were paid in FY 2013, all from LRPH program funds. As of April 30, 2014, post retirement benefits and contract payments have totaled $109,194 for FY 2014, the entire amount charged to the LRPH program. These payouts are detailed in Exhibit 1. Of these amounts, $208,878 in FY 2013 and $87,587 in FY 2014 should have been charged to the COCC, and is an unauthorized use of LRPH program funds.[4]

The DEC also found that the reduction in operating costs from FY 2012 to FY 2013 was the result of a reduction of $371,500 in COCC fees and $149,000 in total maintenance.

The DEC also determined that the total staff training and related travel costs charged to AMPs was $128,589 from FY 2011 through FY 2014 to date. Of these, the costs that were identified for the COCC staff for FY 2011, 2012, 2013, and 2014 to date totaled $95,787. These costs should have been charged to the COCC. The DEC also noted that the total staff training and travel costs increased by $5,157 from FY 2012 to FY 2013 during a period of significantly reduced ACHA revenue.

Fiscal Year	**Total Costs Charged to AMPs ($)**	**COCC Staff Cost Charged to AMPs ($)**
2011	64,013	46,989
2012	27,664	19,058
2013	32,821	27,012
2014	4,091	2,728
Total	**128,589**	**95,787**

[4] Supplement to HUD Handbook 7475.1 Rev., CHG-1, Financial Management Handbook (the Supplement).

According to the Supplement, the personnel costs of the executive director, finance, accounting, and payroll staff that are not directly related to the AMPs should be charged to COCC. The Supplement also states that all personnel costs that include training and travel costs of COCC staff should be charged to COCC. Additionally, according to OMB Circular A-87, Attachment A (C), to be allowable the costs must be necessary and reasonable, and should conform to any limitations or exclusions set forth in these principles, Federal laws, terms and conditions of the Federal award, or other governing regulations as to types or amounts of cost items.

Based on the information shown in the above chart, for the COCC staff of 3, the DEC concluded that the travel costs were not reasonable and trainings attended were not necessary to perform the job functions. The DEC also deemed certain travel associated with training as unreasonable or unnecessary, according to the Supplement and OMB Circular A-87. For example, the accounts payable staff person attended a REAC inspections training in December of 2012, a retired maintenance employee who works one day a week attended a NAHRO conference in October of 2012 and a NAHRO legislative conference in March of 2013, and the former executive director attended trainings in March of 2013 just prior to his retirement. Additionally, the finance director and other administration staff attended several non-financial related trainings during FYs 2011 through 2014.

Additionally, the Supplement states that Board training and related expenses must be reasonable, included in a budget, and approved by the Board before being incurred. However, the executive director could not provide the supporting documentation in the form of a budget or separately identifiable costs for our review.

Other expenses that increased significantly from FY 2012 to FY 2013 included the following:

- Other Operating Administration – Increased $27,217. This was caused by including $32,821 in travel costs in this account. The ACHA did not report separate travel costs for FY 2013.
- Water and Sewerage – Increased $37,389. Per ACHA management, this was primarily caused by an increase in sewerage costs by $2,600 per month beginning in January, 2013.
- Legal – Increased $10,103. Per ACHA management, this was caused by the attorney not charging an increase in the retainage fee from September 2010 through March 2013 totaling $6,600 that was paid in July 2013, and $3,762 for the EEOC case discussed above.
- Insurance – Increased $29,242. Per ACHA management, this was caused premium increases for general liability and worker's comp insurance from FY 2012. ACHA also states that a new carrier has been retained for FY 2014 that will result in significantly lower general liability premiums.

The total increase in costs for these accounts was $197,818.

C. COCC

As with the LRPH program, the COCC reported operating deficits for 3 of the last 4 years. In order to make up for these deficits, the AFS for FY 2011, 2012 and 2013 all reported the use of LRPH funds to pay COCC expenses. Under provisions of the Supplement, this is an unauthorized use of LRPH funds.

The AFS reports $134,310 as due from the COCC to AMP 1 at September 30, 2011, $102,676 at September 30, 2012, and $404,538 at September 30, 2013. The auditor reported the payables from the COCC to the LRPH program in the Notes to the AFS for FY 2011 and 2012, and reported the $404,538 payable in FY 2013 as a finding.

The April 2014 year to date reports the COCC with an operating deficit of $53,280. The COCC reported fee revenue of $59,468, all from AMP 2, through April 30, 2014.

The DEC's review found that for FY 2011 the COCC charged only $193,402 in total fees to the AMPs. The COCC had $134,446 in cash and investments at September 30, 2010 and reported total expenses of $461,855 for FY 2011. The COCC reported $0 cash at September 30, 2011. Based on the operating deficit of $268,453 and the depletion of the cash reserves of $134,466, the remaining deficit of $133,987 was covered by the use of LRPH funds.

The DEC also found that the COCC was actually authorized to collect $504,973 in fees for FY 2011; had all of these fees been charged, there would not have been an inter program payable from the COCC to the LRPH program for FY 2011. Also, there would have been a COCC cash reserve of $177,584 at September 30, 2011.

For FY 2012 the COCC reported total revenues of $454,889, including total fees of $453,868, and total expenses of $431,038, for an operating surplus of $23,851; however, the inter program payable from the COCC to the LRPH program decreased by $31,634. The COCC reported $0 cash at September 30, 2012.

As in FY 2012, the DEC also found that the COCC was actually authorized to collect $511,945 in total fees for FY 2012. As in FY 2011, had all of these fees been charged, there would be no inter program payable at September 30, 2012.

The DEC found similar results for the FY 2013. For FY 2013, the COCC charged $83,124 in total fees against total expenses of $351,536, resulting in an operating deficit of $268,412; however, the COCC was actually authorized to collect $524,867 in total fees, which would result in no inter program payable at September 30, 2013. The COCC reported $0 cash at September 30, 2013.

The reporting error for FY 2013 is more significant because of the impact on the PHAS Financial score for FY 2013. The elimination of the $404,538 inter program payable would have resulted in a decrease in the current assets of the LRPH program reported in the AFS, reducing the PHAS financial score from 18.2, out of a possible 25, as reported in the FASS-PH system, to 9.7, putting the ACHA in a substandard financial status at September 30, 2013. While the elimination of the inter program payables in FY 2011 and 2012 would have also decreased the overall PHAS financial score, the decrease would not have been sufficient to result in a substandard financial rating for those years.

For FY 2014 through April 2014, authorized COCC fees from all the AMPS totaled $358,759, which would result in an operating surplus for the COCC. When asked about these inter program payables, the ED responded that she chose not to charge the AMPs these fees because the AMPs were short of cash, loaning the cash to the COCC, a practice which continued in FY 2014.

The DEC's review found that the COCC fees are paid from the same LRPH cash that the ED is trying to protect, but, by reporting these payments as loans instead of fees, a false assessment of the financial strength of the LRPH program is created. Also, the practice of loaning LRPH funds to the COCC is specifically stated as an unauthorized use of LRPH funds in the Supplement.

As the actual cash involved would be the same cash used to pay the COCC fees, there is no repayment due back from the COCC to the LRPH program; the accounting entries, however, need to be changed to properly reflect these transactions as a fee expense to the AMPs for each of these years.

The DEC also notes that the Supplement does not require all of the fees earned by the COCC from the AMPs to be charged; however, all of the *operating expenses* of the COCC must be paid from the authorized fees charged to the AMPs.

VI. Internal Controls

The DEC reviewed the written Internal Control Policy of the ACHA and interviewed the ED/Financial Director and the Accounts Payable Clerk on the processes and procedures of handling financial transactions to determine the effectiveness of ACHA's internal controls in accordance with 24 CFR Part 85.20 (b)(3).[5]

The ACHA did provide the DEC with a copy of their Internal Control Policy, adopted by the Board July 31, 2009. This policy covers the collection, safeguarding and deposit of checks and cash received by the ACHA, and the handling of invoices and issuance of checks; however, these procedures do not accurately reflect the actual organizational make-up of the ACHA. While the policy appears to break up cash and check handling responsibilities among several individuals, because numerous positions are filled by the same person, there is no real segregation of duties.

Examples include:

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[5] 24 CFR Part 85.20(b)(3) requires that HUD grantees establish effective internal control and accountability over grant funds received, to include safeguarding such assets and assuring that funds are used solely for authorized purposes.

1. "AMP managers must sign or stamp all bills or requests for payment forms approving purchases and/or reimbursements before submitting to the Finance Director for approval of payment." Presently, the Finance Director is also the AMP site manager for 2 of the 3 AMPS.

2. "Monthly credit card statements will be presented by the Finance Director to the AMP managers for approval of charged purchases and returned to the Finance Director." Again, the Finance Director is also the AMP site manager for 2 of the 3 AMPS.

3. "All PO's must have Site Manager/Executive Director approval for PO's over $150." The Executive Director is also the AMP site manager for 2 of the 3 AMPS.

Procurement

The DEC reviewed the ACHA Procurement Policy for compliance with HUD and PIH procurement requirements as found in 24 CFR 58.36 and the Procurement Handbook for Public Housing Agencies (7460.8 rev-2). The ACHA Procurement Policy provided to the DEC was revised and approved by the Board in February 2007.

The ACHA procurement policy is deficient, especially as it relates to major purchases over $100,000, including: Davis-Bacon wage requirements; use of required HUD contract forms; and documenting rationale for contract award.

As the CFO is in the process of actually reviewing the details of ACHA capital procurements during the review period, the DEC only reviewed the professional services contracts for legal services and the fee accountant. The Procurement Handbook for Public Housing Agencies (7460.8 rev-2) limits contracts to no more than 5 years, including options, without HUD approval. The DEC found that both contracts had been procured within the last 5 years.

The chart included as Exhibit 2 summarizes the results of the DEC's procurement review.

VII. Governance and Management

ACHA's Management and Board have failed to ensure the HUD subsidies are administered in accordance with the statutory and regulatory requirements as well as their own Commissioner's Handbook. The LRPH program is trending towards a non-sustainable financial position. The initial Results and Determination letter issued by CFO dated November 1, 2013 cited a number of Physical and Management issues. However, as of the date of this review, there is no evidence that ACHA's Management and Board have taken proper corrective measures to mitigate the situation.

The overall financial condition of ACHA has weakened over the review period. Overall net operating income, operating reserves, as well as cash and investments have decreased during the review period. Management and the Board should have been aware that the practice of loaning LRPH funds to the COCC is an unauthorized use of LRPH funds in accordance with the Supplement.

The overall Program operating expenses were less for FY 2013 than FY 2012; however, total personnel costs were actually higher in FY 2013 than in FY 2012. The increase in personnel costs were primarily due to retirement buyouts, post retirement contracts, and administration training and travel costs in FY 2013 during a period of reduced income from HUD operating and CFP grants and rent revenues. This also contributed to the decrease in operating reserves at September 30, 2013.

The overall occupancy of 97% in FY2012 has decreased to 88% as reported for July 2014. The decrease in occupancy was primarily due to the units not being in decent, safe, and sanitary condition, as found in the FY 2012 PHAS physical assessment. This is a result of Management and the Board's use of LRPH program funds for retirement buyouts, post retirement contracts, and administration training and travel costs rather than repairing and maintaining physically substandard units.

The ACHA Board approved non-compliant procurement policy also has significant deficiencies, especially related to major purchases over $100,000, including: Davis-Bacon wage requirements; use of required HUD contract forms; and documenting rationale for contract award.

The internal controls have been compromised due to lack of proper segregation of duties. The Internal Control policy details the cash functions and distribution of responsibilities among various positions. However, in actuality, there is no segregation of duties due to numerous positions have been filled by the same individual.

The ED, who is also the Finance Director, did not demonstrate having a sound knowledge of HUD Regulations, Program, and Accounting requirements, all necessary skills in managing Program funds.

VIII. Recommendations

1. PIH should consider repositioning the ACHA due to poor governance and management, as demonstrated by repeat findings of unauthorized use of LRPH program funds.

2. PIH should continue working with REAC to determine if a rescoring of the PHAS financial score for FY 2013 is warranted.

3. The DEC recommends ACHA take the following correction action:

- Make the accounting changes necessary to properly reflect the COCC fees due from the LRPH program and to eliminate the inter program payable of $404,538 at September 30, 2013 from the COCC to the LRPH program.
- Accurately record the early retirement buyouts, post retirement employment contracts, and post retirement benefits totaling $336,922 as of May 2014, as COCC expenses.
- Record the EEO settlement payments totaling $10,500 as of July 1, 2014, as COCC expenses.
- Pursue recovering all of the funds paid to the former ED, totaling $31,407 on the voided contract.

4. The Internal Control Policy needs to be updated to reflect the actual personnel currently performing the cash and check handling procedures. The policy should be dated, and approved by Board resolution.

5. The Procurement Policy needs to be modified in accordance with the requirements per 24 CFR 85.36 and 7460.8 REV 2 App3.

6. ACHA needs to develop and implement a plan to significantly increase occupancy to the 97% level required by HUD. If the public housing needs of Alexander County cannot support this level of occupancy, the ACHA should consider merging with a neighboring high performing PHA or other options to reduce operations to a sustainable level.

7. ACHA should add a separate Financial Director and separate Site Managers for AMP 1 and 3.

8. ACHA should revisit their budget and expenditures in light of their falling revenue and physically substandard units.

Exhibit 1 – Post Retirement Contract Payments
Exhibit 2 – ACHA Procurement